RESPONSE TO JAPAN'S STEWARDSHIP CODE

Principles for Responsible Institutional Investors

Walter Scott commended the action of the Minister for Financial Services and the Financial Services Agency in introducing a Stewardship Code in February 2014. This marked an important step in the evolution of the rights and obligations of both investors and corporations in Japan. Walter Scott also supports and accepts the implementation of the Code revised in May 2017 and then again in March 2020.

Walter Scott's investment approach is wholly aligned with the objective of Japan's Stewardship Code: to promote sustainable growth of companies through investment and dialogue. Long-term ownership is central to Walter Scott's investment approach and in that context meaningful ongoing dialogue, based on in-depth knowledge of investee companies and their industry, is vital.

For Walter Scott, good stewardship means acting as a careful owner on behalf of the firm's clients thereby creating investment opportunities and decreasing investment risk. The Board of Walter Scott also recognises its obligation to support continued improvement both within the firm and across the industry in meeting its stewardship responsibilities.

Walter Scott is solely focused on global equity investing on behalf of its clients. The firm's core conviction is that over the long term, returns to shareholders can only ever be as great as the wealth generated by the underlying businesses in which they are invested. The primary task is identifying companies capable of sustaining high rates of wealth generation over the long term. Walter Scott's investment philosophy and process, within which ESG considerations are an integral part, have been consistently applied since the firm was founded in 1983. That approach is also consistency applied across all strategies. The investment rationale for every stock held is built around long-term ownership with no defined expectation of sale.

Please find below the firm's response to the principles contained within Japan's Stewardship Code.

PRINCIPLE 1

Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities, and publicly disclose it.

Walter Scott's investment process rests upon in-depth research into every individual company considered for inclusion in a portfolio. The firm's approach to research is also designed to ensure that the research effort is long-term in both its perspective and objective. The research effort is evidenced through written reports and financial analysis and is heavily based upon debate and discussion within the Investment Research team ('Research team') both in formal meetings, generally held three times a week, and informal dialogue within that team. Investment proposals require the agreement of all members of the team and so all must be assured of the quality and integrity of the research undertaken across all relevant, including governance related, issues. Any agreed proposal is then presented to the Investment Executive (IE), which comprises the firm's Managing Director, Investment Director and two senior Investment Managers, for ratification. Before any investment is made, members of the team will generally have met with management and will then establish regular, purposeful dialogue with the company.

PRINCIPLE 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

Walter Scott's Conflicts of Interest Policy underpins the firm's commitment to acting in the best interests of clients at all times. The policy outlines the procedures to be followed in the event of a conflict, or potential conflict. With regards to stewardship specifically, where Walter Scott manages assets for a publicly listed company, the client relationship has no bearing on Walter Scott's investment perspective on the company, nor on engagement with company management nor on proxy voting. The firm's Proxy Voting Policy sets out the guidelines to be followed in particular instances as well as the required approval processes for all votes cast. The policy addresses the steps to be taken should there be any ambiguity or potential conflict.

Generally, each member of the Research team, referred to as a 'stock champion', is responsible for a number of companies held. Typically, the stock champion will be the individual that proposed and presented the stock for investment and members of the team will be champion to a small number of stocks across sectors and geographies. Proxy voting is the responsibility of each stock champion. In situations where there is any doubt or potential conflict, a meeting with the Proxy Voting and Engagement Group (PVEG) is convened. The PVEG reports to the Investment Stewardship and Sustainability Committee (ISSC).

Whilst conflicts are infrequent, the most likely conflicts will occur where either Walter Scott manages assets for a company whose management is soliciting proxies or if a client of Walter Scott's is the proponent of a shareholder resolution. In such a situation, a PVEG meeting will be called. Once the PVEG has identified a potential conflict of interest, it will resolve the conflict prior to voting the proxy in question by verifying that the stock champion's voting instructions are entirely in line with Walter Scott's Proxy Voting Policy. If necessary, the voting instructions would be changed accordingly. A member of the firm's Risk & Compliance team will also attend that meeting to ensure the Proxy Voting Policy is followed when a conflict arises. The Risk & Compliance function of Walter Scott is independent of the Investment and Operations functions of the firm as required by the Financial Conduct Authority.

Both the Conflicts of Interest Policy and the Proxy Voting Policy are supplied to all clients at the outset of the relationship and upon any material change thereafter. These policies underpin the firm's commitment to ensure that the best interests of all clients remain foremost in mind. The Conflicts of Interest Policy can be found on the 'Regulatory and Governance Disclosures' page of the firm's website (www.walterscott.com). The Proxy Voting Policy can be found within the 'ESG Integration Overview and Stewardship Policies' document on the 'Sustainability' page of the firm's website (www.walterscott.com/sustainability).

Walter Scott is a separate legal entity and a wholly owned subsidiary within The Bank of New York Mellon Corporation (BNY). The Board of Directors has ultimate responsibility for corporate governance and the Directors recognise the importance of their role in ensuring sound governance. The Board consists of executive directors, representatives from BNY and four independent directors, one of whom chairs the Board. Biographies of all Directors can be viewed on the firm's website (www.walterscott.com). The Board discharges its responsibilities through regular Board meetings and by delegating aspects of that responsibility through formal Committees. Policies and procedures have also been established to ensure effective and appropriate governance of the business. The Operating Groups and Committees that ultimately report to the Board generally meet on a monthly or quarterly basis.

Walter Scott, as a wholly owned subsidiary of BNY, operates autonomously from its parent in terms of its investment research, portfolio management, investment administration and other elements that impinge directly upon the investment management services provided to clients. The investment decisions reflected within Walter Scott client portfolios reflect its independent investment research.

PRINCIPLE 3

Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

Through in-house research and communication with investee companies, the Research team seeks to identify and review the relevant, and material, factors in assessing a company's ability to generate wealth over the long term, including environmental, social and governance factors. The investment process is deliberately structured to attempt to avoid companies where environmental, social and governance factors are deemed to put durable growth and meaningful wealth creation at risk. Walter Scott's 'ESG Integration Overview and Stewardship Policies' document can be found on the 'Sustainability' page of the firm's website (www.walterscott.com/sustainability).

Walter Scott's investment philosophy relies upon a long-term outlook resulting in low portfolio turnover. As a consequence, careful monitoring of publicly available information pertinent to an investee company is fundamental to the investment process. Each member of the Research team is responsible for monitoring a relatively small number of companies acting as stock champion for a particular stock. Monitoring is evidenced through extensive and detailed research and analysis by each stock champion as well as through communications within the team. Formally, at least once a week every holding across all portfolios is considered by the team with particular discussion in the event of notable news on a company or a marked share price move. With the Research team all based in a single location in Edinburgh, more regular dialogue is both possible and encouraged to further ensure that all investee companies remain under scrutiny at all times. Whilst Walter Scott's investment process is deliberately structured to discourage undue focus on short term market "noise", vigilant monitoring is integral to that process.

Continuing dialogue with company management is also a very important element of monitoring investments. That dialogue serves as a vital gauge of company management's attitude to corporate governance and their ambitions to improve on such governance as part of their overall strategy for growth over a long-term horizon. A robust and constructive attitude to corporate governance, in its widest sense, is fundamental to sustaining a successful business model over time.

PRINCIPLE 4

Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

Walter Scott believes that engagement with investee companies is central to being an effective steward of our clients' assets. Through constructive dialogue with company management, we seek greater insight into the risks and opportunities that can affect a company's ability to deliver long-term wealth generation for clients. It allows us to signal our intentions and expectations as a long-term shareholder and achieve a more complete understanding of a company's management team, strategy and practices. Regular dialogue with investee companies affords the opportunity to discuss events or concerns as they arise. On the rare occasion that concerns are not addressed through such communication a decision to escalate the level of engagement may be considered. An unsatisfactory conclusion to any discussion in this regard could lead to a sale of the position.

The decision on whether to escalate engagement will initially rest with the individual stock champion in discussion with the ISSC. The nature of the engagement and the agreed objectives will therefore vary from company to company. All engagement, however, is approached in the context of Walter Scott's investment approach that seeks to identify and invest in companies capable of meaningful, durable growth over the long term. In the past, engagement has typically entailed initiating a call or meeting with senior management of the company in question to deal with the specific matter of concern or a formal letter to the company outlining the particular issue and expressing Walter Scott's favoured course of action. That initial letter outlining our concerns, objectives and hopes will typically lead to a meeting with the company. In several instances, the dialogue thereafter has stretched over numerous meetings and calls, sometimes over years. Engagement is typically conducted with senior management but on occasion, we have initiated conversations with non-executive Directors and also responded to requests from non-executive Directors. The route to engaging on very specific items will necessarily vary depending on the circumstances. For example, where there are concerns regarding management's remuneration, Walter Scott will generally seek to engage with the Chairperson of the Remuneration Committee.

Situations where Walter Scott would engage with investee companies in collaboration with other institutional investors are likely to be rare as it is Walter Scott's preference to engage on an individual basis. However, collaborative engagement would be considered where such action is deemed to be in the best interest of clients. The firm's ISSC approves and oversees any proposed collaborative engagement.

Whilst Walter Scott strives to achieve constructive and regular communication with investee companies, Walter Scott's usual, and strong preference is to avoid being in receipt of Material Non-Public Information (MNPI). The firm believes that it must place its independence and its ability to trade on client's behalf above all, without the necessary limits imposed when in receipt of MNPI. Investee companies are informed via a letter from the Chief Compliance Officer that any communication, other than on matters that are already in the public domain, be sent to compliance@walterscott.com.

Walter Scott has established a ring-fenced team (RFT) to process communication related to shareholder engagement that is potentially MNPI such as draft remuneration policies or executive appointments or departures. The RFT comprises of the Chief Compliance Officer and other relevant individuals who do not have direct responsibility for making investment decisions or day-to-day responsibility for investee companies. On receipt of such information, clear procedures are in place to ensure that all necessary steps to comply with regulatory requirements are taken.

PRINCIPLE 5

Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

Walter Scott has designed its Proxy Voting Policy, procedures and pre-established voting guidelines to ensure that our voting decisions are in the best interests of our clients. While we aim to vote at every shareholder meeting and on every resolution, this is on a best endeavours basis and may not always be possible. Stock on loan, jurisdictional restrictions and custodian related issues amongst other external factors can all impact Walter Scott's ability to vote.

Walter Scott does not undertake stock lending. Any such arrangement rests with clients and their appointed custodian. Walter Scott generally does not ask clients to recall stock on loan in order to vote.

Walter Scott's Proxy Voting Policy is publicly disclosed within the 'ESG Integration Overview and Stewardship Policies' document which can be found on the 'Sustainability' page of the firm's website (www.walterscott.com/sustainability). The Proxy Voting Policy does not aim to cover every possible eventuality. Instead, it covers the most frequent areas of contention and provides a clear framework through which to escalate other areas of concern and reach a consensus on the most appropriate course of action thereby promoting durable growth of investee companies. Areas specifically covered within the Policy include corporate governance issues, including remuneration and board composition; changes to capital structure, such as undue and unacceptable dilution, poison pills; political donations, allocation of income and dividends and environmental, social and corporate responsibility issues amongst other factors. Walter Scott evaluates each agenda item separately and votes on all issues on a case-by-case basis.

To ensure that each stock champion has all the necessary information on any AGM or EGM, Walter Scott receives documentation on forthcoming votes from custodians and ISS. However, the stock champions vote independently of recommendations from any intermediary.

Where requested, clients are provided with proxy voting records and related commentary. In addition, Walter Scott discloses proxy voting data on the 'Disclosures' and 'Sustainability' pages of the firm's website (www.walterscott.com).

PRINCIPLE 6

Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

Walter Scott communicates how it carries out its stewardship responsibilities with clients through meetings and conversations as well as through monthly, quarterly and ad-hoc reports that may include details of engagement efforts, proxy voting activities and ESG-related matters. An Annual Sustainability Report, which also serves as our Response to the UK Stewardship Code, is made available on our website. On request, clients are provided with further detail including explanation of any voting against management recommendation, examples of recent engagement or research specifically related to issues across the ESG spectrum.

Both the Conflicts of Interest Policy and the Proxy Voting Policy are supplied to all clients at the outset of the relationship and upon any material change thereafter.

PRINCIPLE 7

To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

Walter Scott's investment process is grounded in a consistently applied research framework and a team-based approach. That approach allows knowledge, expertise and experience to be shared amongst the group; the combined effort of the Research team is considered greater than the sum of the parts. Senior management is committed to ensuring that all employees undertaking stewardship activities are equipped with the necessary skills; underpinned by mentoring and continuing professional development. The firm offers both external and internal training, including a dedicated investment training programme, as well as encouraging gaining external qualifications where appropriate. These efforts reflect Walter Scott's focus on in-depth company research, its highly selective investment approach and long-term investment horizon. Further, these ongoing efforts ensure that the team continues to fulfil its stewardship activities and responsibilities.

Whilst the team's remit is global, with a long-term outlook, a "buy and hold" philosophy and highly selective investment criteria, the efforts of the team are focused on a much smaller investable universe. In turn, that allows diligent research. It is the responsibility of the team to research those factors that may benefit or impact a particular company over the long-term. That task involves detailed analysis of publicly available financial statements and strategic reports. It involves conversations with the company itself, both senior and, from time to time, operational management as well as with peers and competitors. There is also regular dialogue between the team and industry and academic experts. Whilst investment decisions are made on the merits of each individual company with little reference to sector or geographical constraints, the team must remain cognisant of long-term shifts in economies, society and industry. It is to these long terms shifts that world-leading companies should be aligned in the pursuit of long-term growth.

In this context, collaborative engagement is rare as it is Walter Scott's preference to engage on an individual basis. However, it would be considered where such action is deemed to be in the best interest of clients. The ISSC has oversight of the firm's corporate engagement.

The firm has also on occasion participated in industry initiatives and collective discussions around revised standards and reporting.

PRINCIPLE 8

Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

Whilst Walter Scott is not a service provider, the firm does use such providers. In doing so, there are clear procedures around those relationships to ensure accuracy, transparency and remove potential conflicts.

The only notable service provider, for Walter Scott, in this context is ISS. To ensure that each stock champion has all the necessary information on any AGM or EGM, Walter Scott receives documentation on forthcoming votes from custodians and ISS. However, the stock champions vote independently of recommendations from any intermediary. Further, we also source information directly from individual companies and any information provided serves as the primary source in the event of any discrepancy.

Self-evaluation

As recommended, annually, Walter Scott will review and, where necessary, update the firm's Response to Japan's Stewardship Code with respect to the status of our implementation of the Code principles.

Under Principle 7, the Code recommends that asset managers should regularly conduct self-evaluations with respect to the status of their implementation of each principle, including guidance, and disclose such results.

Please refer to our latest Annual Sustainability Report which provides evidence and an evaluation of our stewardship activities relating to the UK Stewardship Code during the year. The document can be found on the 'Sustainability' page of the firm's website (www.walterscott.com/sustainability).

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